The Toronto-Dominion Bank Annual Meeting of Shareholders January 9th, 1968

Address by A.T. Lambert, President

Release: 11 : 30 a.m. Tuesday, Jan. 9th, 1968.

Our Centennial Year, 1967, saw many exciting events and achievements although it also brought into sharper focus the differences in Canada that tend to divide us. Through the Centennial celebrations many Canadians became more consciously aware that history can add dignity and emotion to our national identity. They discovered that they had much to be proud of and even more to be grateful for. This sentiment was best exemplified in the great success of the Exposition at Montreal, Expo '67. This was a bold undertaking, financially and otherwise, for a country as small as Canada, but it was well that we accepted the challenge for it proved to ourselves and the world that we had the creative and organizational abilities to bring about such a magnificent and inspiring result.

It was hoped that the Centennial celebrations would strengthen the bonds of nationhood and, indeed, they did contribute much to a better understanding of the desires and aspirations of the different parts of Canada.

A Time for Stock Taking

A Centennial anniversary is a time for stock taking and it is not surprising that Confederation came in for close re-appraisal with some critical voices being raised. In these circumstances the need for a meeting of Provincial Leaders such as the one sponsored by Premier Robarts of Ontario became apparent.

We are proud that this Confederation of Tomorrow Conference was held on the 54th floor of our new Toronto Dominion Bank Tower.

There can be no doubt that this was a well-timed and well-conceived conference and the discussions that took place were conducted with great frankness and understanding. While at times an impasse appeared in the making, it was very heartening that such incidents passed quite smoothly when related to what was in the best interests of Canada as a whole.

I believe it is unthinkable that we cannot find equitable and acceptable answers to the questions that are troubling us, but if we are to succeed we must not only very much want to do so but also believe that Canada, indivisible, is more to be desired than something else. It will require "give and take" and possibly some sacrifices, but such sacrifices will pale to insignificance compared to those which would be forced upon us by the separation of the nation into unviable economic units. The impact of such a sad event cannot be readily measured, but it would seem most probable that the heaviest part of the burden would fall on those least able to bear it.

Too Much for Granted

There have been things left undone that ought to have been done. We have taken each other too much for granted. But surely we can learn from the past and plan better for the future. There is much to do and much we can do if we resolve to get along with it and with each other. I believe the words of Winston Churchill, when he addressed Parliament following the evacuation of Dunkirk, have

meaning for us now. "If we open a quarrel between the past and the present we shall find that we have lost the future."

Canadians continued to enjoy a high level of prosperity throughout 1967. The upward trend in incomes, savings and Gross National Product was maintained, but in real terms the economy moved ahead at a slower rate than we have been experiencing in recent years. Final data will not be available for some time but indications are that the output of the economy in dollar terms rose by 7 per cent. The growth in physical output, on the other hand, was only of the order of 2½ per cent since prices have risen by 4½ per cent.

Capital Spending Leads Off

The reason for the levelling out in the rate of growth experienced this past year was the almost complete absence of any increase in capital spending by business. This was one of the main expansionary forces in recent years, but during 1967 the private sector found itself with adequate capacity. In addition, there was strong competition by Governments at all levels for available funds and these factors, plus pressure on profit margins as a result of rising costs, appear to have resulted in some postponements.

The two sectors of the economy which dominated our modest growth performance last year were exports and government spending. Merchandise exports increased in 1967 by about 11½ per cent and should meet Trade Minister Winter's ambitious target of $11¼ billion.

The Government sector of the economy increased significantly and we are faced with a federal budgetary deficit of approximately $785 millions for the current fiscal year. This figure does not include the deficit incurred in financing Expo '67. The level to which Government spending has risen and the magnitude of the increases in recent years are matters of concern to every Canadian.

During the year there were disruptive developments in our financial markets. In March and April last, interest rates moved significantly below the peaks reached in the period of tight money in the fall of 1966. Since then, however, interest rates have moved to new highs and difficulties have been encountered by some borrowers in floating new security issues in the capital markets even at interest rates in excess of 7 per cent.

A major influence in this has been the expectation of continued inflation, a distressing by-product of our economic experience of the last three years. One can hardly expect interest rates to remain steady when all other prices are rising and when the purchasing power of the dollar is showing steady depreciation.

New Social Services Must Be Earned

With increasing evidence that our financial resources are already over-burdened, it would seem that new social services should not be piled on top of the programmes we already have until they have been earned by an increase in the country's real output. The

provision of adequate medical services for all Canadians is an objective with which we all agree, but surely the financial positions of our governments and the state of the economy indicate that the decision to introduce Medicare in 1968 should be re-appraised. The Minister of Finance in his interim budget acknowledged the difficulty of obtaining reductions in federal spending and with taxation already at a very high level it would be inappropriate to add further cost burdens.

The Economic Council has recommended a considered analysis of present government spending programmes to weed out those that are no longer in the public interest. With this, I am sure, we all agree. I would go further and suggest that it should be combined with a careful analysis of new programmes—in terms of both costs and benefits—to make sure that the share of National output that we allocate to the government sector does not block or detract from private sector developments which would be even more beneficial to the country. A year ago I suggested that the establishment of a Federal-Provincial Council, armed with proper research facilities, could assist in making more successful use of the traditional fiscal and monetary policy instruments, in adjusting federal and provincial powers to present-day conditions, in assessing our social service programmes and in the development of suitable manpower policies. I am more than ever convinced of the need for such a Council. More long-term study of the role of governments and the private sector in achieving our social and economic objectives needs to be undertaken. Objectives and alternative ways of achieving them should be examined and final demands balanced against available resources.

It is doubtful if any other Royal Commission report has been the subject of as much comment—much of it adverse—as has the Carter Report on Taxation. There can be no doubt that some of the proposals of the Commission were open to criticism and the government followed the course of wisdom in inviting representations from interested parties. It seems apparent that the government has no intention of accepting all of the Carter Commission proposals but this does not mean that there will not be any tax reform and in the circumstances it is not surprising that business and the tax-paying public are anxiously awaiting publication of the government's proposed White Paper in March. Unquestionably our present tax system can be improved and this should be an evolving process to which serious attention must continue to be given. The objective is to create an improved tax structure which will produce the revenues that are required and at the same time will not discourage savings, will not have an adverse effect on the flow of capital and will not impede sound economic development and growth.

International Events

In the field of international finance and trade there were three major

events in 1967 which have important implications. These are the devaluation of the pound sterling, the successful conclusion of the Kennedy Round of Tariff Negotiations and the agreement for development of special drawing rights in the International Monetary Fund.

The most recent of these was, of course, the devaluation of the pound. The hope and expectation is that the devaluation is a positive step toward permanent better health for the British economy and for sterling. It should provide some relief to Britain's external economic problems so that she can concentrate on finding a solution to her internal economic difficulties. The new international value chosen for sterling appears to be a reasonable middle course and should result in a new stability on the international financial scene.

The effect of Britain's devaluation on Canada's merchandise trade should not be large. Only a small proportion of our exports will meet stiffer competition as a result of the lower value of sterling. There will be some reduction in the price of imports from the United Kingdom but this should not cause major disruptions to our domestic industries. It is logical to assume, however, that our favourable trade balance with Britain will be somewhat lower in 1968.

The Kennedy Round

The Kennedy Round Agreement under the General Agreement on Tariffs and Trade will have a substantial impact on most western industrial nations, and especially on countries like Canada that are highly dependent on trade. The agreed tariff reductions are large. Canadian industrial tariffs will be reduced by about one-quarter compared with a one-third cut in the United States and the Common Market, and approximately three-tenths in Japan. These changes in commercial policy will affect the relative growth rates of various industries. In the short-run they may involve some dislocation costs but in the long-run they should have beneficial effects on the nature and rate of growth of the Canadian economy.

The aim of our negotiators was to gain increased penetration for Canadian goods in foreign markets and, at the same time, retain a level of protection which would encourage the production of highly manufactured goods in Canada. Thus, our concessions were largest on resource-based products in which our industries are most competitive by world standards and on intermediate goods, and smallest on highly manufactured goods. These changes accentuate the escalating character of the Canadian tariff schedule whereby raw materials enter duty free or at low rates, manufactured intermediate goods at modest rates and consumer goods at high rates.

Anti-dumping Policies

The section of the agreement which has caused Canadian business most concern is the new international code on anti-dumping policies. This new code provides for dumping duties only where there is proof of "material injury" or "threat of injury" to domestic industry, whereas

Canada, because of its small markets and close proximity to the United States, has had tough anti-dumping laws. The administration of the new code will be most important and only the promise of prompt decisions will allay the fears now current in some sections of the business community.

In a broad sense the Kennedy Round agreements mark a change in Canadian commercial policy. We have made substantial concessions in the interests of expanding world trade and expectations are that these will result in a faster rate of economic growth, led by increased exports. If the opportunities which they offer are seized upon they should be a contributory factor to greater welfare for all Canadians.

World liquidity and the provision of sufficient international financial reserves and credit facilities to finance the expansion of international trade and investment has been a continuing concern. Thus, it is encouraging that an accord was reached at the International Monetary Fund and World Bank meetings in Rio de Janeiro for the creation of a new facility to meet this need as it arises in the future.

Monetary Fund Arrangements

The new facility means that countries that are members of the International Monetary Fund will have special drawing rights by which they can obtain usable currencies from other members. The special drawing rights as presently contemplated will be usable automatically and unconditionally in international settlements. Then, again, the increase in quotas, unlike what obtained in the past, will not involve any payment in gold.

It will be some time before this new reserve unit takes its place beside gold, United States dollars and sterling as a form of international money. The initial allocation of Special Drawing Rights will be small in relation to either the present reserve assets or the volume of trade. It will also take a number of years to ascertain their potential. Nevertheless, the fact that the accord was reached is a great stride forward in international financial co-operation.

In the very important matter of reducing the United States Balance of Payments deficit, President Johnson has recently taken some bold new steps. Not everyone will agree with all the details of the proposed programme, but the United States is to be lauded for taking strong action to solve this problem. It is, of course, in the interest of the free world that the U.S. dollar remain strong and the international financial community should be encouraged by these new moves.

It is too early to measure fully the impact of these new regulations for Canada although it is encouraging that the first reaction is not unfavourable. Heavy investment in Canada by U.S. companies is accompanied by a large trade surplus in favour of the United States and, except for our Centennial Year, a substantially favourable amount on tourist account as well. There is, therefore, good reason to exempt Canada from much of the proposed new regulation,

but it will be essential that we, in Canada, take active steps to expand our exports and take such other measures as are needed to reduce our dependence on capital imports.

Economic Outlook

Before concluding my remarks I would like to deal briefly with the outlook for the Canadian economy in 1968. We have just come through a year characterized by upward pressures on prices, excessive increases in wages, and strained financial markets but there are indications that the distortions are weakening. The pace of economic activity has slackened and steps have been taken by the authorities in both the monetary and fiscal fields which should have the effect of lessening inflationary pressures. As evidence of this it is gratifying to note that wholesale prices rose only 1.6 per cent in 1967 as against 3.7 per cent in 1966 and this fact should be reflected in more moderate retail price increases in the year ahead. Another factor which will tend to lessen price pressures is that we have adequate capacity to handle the expected volume of production without undue strain.

To determine the economic outlook for a year ahead is never easy and this year the task is complicated by some uncertainties and cross-currents—both international and domestic. On balance, however, I think the Canadian economy can look forward to a continuance of a modest rate of growth and with a little luck 1968 will be a somewhat better year than 1967.

A Somewhat Better Year

Our preliminary forecast indicates a Gross National Product in 1968 in excess of $66 billions, representing an increase of about 7½ per cent—or somewhat more than was experienced last year. The important thing is that price increases will account for a smaller part of the increase. Thus, the rate of increase in real terms in 1968 is likely to be significantly greater than that experienced in 1967. Last year the increase in the general price level was about 4½ per cent whereas this year it is expected to be around 3½ per cent. This would be a distinct improvement but we need to do even better.

Demand strength is expected to come particularly from consumer spending, exports, residential construction, and inventory accumulation. The latter two in particular should show improvement. Housing starts rose substantially in 1967, which in itself will guarantee high expenditure levels during much of 1968. Moreover, with increased savings flowing into the housing sector, it appears likely that housing starts will show further improvement, adding additional strength to this demand sector.

Private Capital Spending

The behaviour of private capital spending outside of housing in the coming year is a major question mark. A number of factors suggest that conditions do not justify an early resumption of strong outlays on capital facilities. Capacity appears adequate in most major industries. At

the same time the investment climate has been adversely affected by a squeeze on profits, rising costs, tightness in financial markets and, recently, by the speedup in the payment of corporate income taxes. An additional measure of uncertainty is the action taken by the U.S. authorities to deal with their balance of payments situation. The completion of a number of projects undertaken in conjunction with Expo '67 and other Centennial activities has left gaps in the investment picture in many parts of the country. Thus, little or no increase in this year's private capital programme, excluding housing, can be expected.

The growth of exports has been an important factor in our economic development, and this should continue to be the case this year. Commodity exports are expected to show an increase and to rise slightly faster than imports, especially as we expect the United States market will continue strong. In total, there should be some improvement in the Canadian trade balance in 1968 but this will be more than offset by a sharp fall in tourist earnings from the high levels reached in Centennial Year. The overall balance of payments deficit—that is, the Current Account deficit—therefore, will rise to somewhere in the pre-Expo range of $1.1 to $1.2 billion. With substantial exchange reserves at present, this should present no new difficulties for the monetary authorities.

Consumer spending should be strong. In the past two years the flow of funds into savings has been larger than usual and this trend is not likely to continue. As a matter of fact, this increased flow into savings should be a positive factor for the durable goods market in 1968.

While the outlook for the total production of goods and services this year is less optimistic than one might have hoped for the continued pause in the rate of rapid growth should have the advantage of allowing us to make many of the adjustments necessary to assure a more orderly expansion during the balance of the decade. As I have indicated, there is an overriding urgency at this point to break inflationary expectations, to bring wage increases in line with productivity gains, to limit, for the time being, further expansion in social services and to restore order to our financial markets. Since the prospects for the immediate future indicate little or no strain on the productive capacity of the economy there should be a good opportunity to make progress in realizing these objectives.

Our second century began with impressive celebrations, with problems both political and economic, but with a strong and viable economy. It is now time to face our political and economic problems, to use all our abilities to solve them, and to face the years ahead proud of our history and confident of our future.

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